

Key Diagnostic Parameters of Family Enterprise Functionality

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A family enterprise is any endeavor that is owned, controlled or shared in some way by a number of family members. These endeavors might include an operating company, a family foundation, a family office, or a less structured collection of assets and activities. A family enterprise will include all of the governance structures that play a role in the direction and management of the enterprise.

Functionality is a measure of how effectively and efficiently core values and mission are identified, objectives are established, plans are adopted, decisions are made, consensus is reached, progress is made, conflict is managed, and goals are achieved. A functional family enterprise will effectively develop succeeding generations and engage in a constructive process of succession in ownership, control and leadership. A functional family enterprise should produce a general sense of satisfaction over the governance of the enterprise.

To diagnose the functionality of a family enterprise or a sub-part of the family enterprise, such as a family council, or board of directors, or family foundation, the following parameters will be relevant:

Key Diagnostic Parameters of a Family Enterprise Functionality	
1. Guiding Principles	Which guiding principles are clear and present in the enterprise: Core Values, Mission, Vision, Goals, Policies, Rules, Processes, Plans, Agreements, Strategies, Custom and Practice, Legal Constraints
2. Information/Communication	Clarity regarding: What, When, How, By Whom, To Whom, in What Form, and in What Manner
3. Forums/Roles	Which forums exist for discussion, debate and decision-making for which issues; Are roles and responsibilities clearly defined.
4. Skills and Knowledge	What level of skills, knowledge and experience is needed for each role; what development plans exist to obtain necessary skills, knowledge and experience
5. Decision-Making	What decisions are made, by whom and by what threshold of approval; decision-making processes
6. Satisfaction Level	High level of satisfaction among family members indicates functionality; otherwise points to missing or weak key parameters, misunderstanding, inappropriate expectations or misalignment

Each of these key parameters will be explained. It is assumed in this article that the decision-making of the family enterprise has moved beyond a single autocratic leader and that collaborative decision-making is both required and desirable.

KEY PARAMETERS

1. Guiding Principles Complex, Close Relationships

An enterprise without guiding principles will be chaotic and arbitrary. A well-developed family enterprise will have spent some meaningful time identifying its core values, mission and vision for the family, for the business and other entities and for ownership. This process should lead to the identification of goals in each of these domains. The achievement of these goals will involve certain governance structures which in turn require rules, policies, processes plans and agreements.

Examples of policies that are often useful in a family enterprise include: a family communication policy, a family member employment policy, a dividend/distribution policy, a family ownership risk and diversification policy, a family philanthropy policy. Examples of plans include a business plan, a contingency plan, an estate plan, an ownership succession and a liquidity plan. Agreements include shareholder agreements, trust agreements, non-compete agreements and employment agreements. Other aspects of guiding principles include legal and ethical constraints, custom and practice and strategic plans.

A diagnostic approach would determine how many of these guiding principles are present, how clearly they are defined and how collaborative was the process in their creation, (which impacts the level of adoption and support). Increased functionality occurs when the family strategic plan, and the ownership/financial strategic plan and the operational strategic plan (for the operating business, foundation or family office) are integrated and coordinated.

2. Information/Communication

The communication of information is the lifeblood of any family enterprise. Each family needs to determine the "What", "How", "Who" and "When," as well as the "Form" of the information. Communication protocols are needed to ensure that critical information is delivered on a timely, understandable way to all of those who are direct or indirect

decision-makers. Therefore, a key diagnostic parameter of a family enterprise is whether there is clarity regarding:

- a. "What": What is the nature and content of the information to be disseminated?
- b. "Form": in what form, (raw, formatted, processed, edited, summarized....?); what records of the information will be kept for future reference?
- c. "Who": what group is responsible for delivering the information and what group is entitled to receive it
- d. "When": how timely is the information?
- e. "How": are there rules regarding how communications occur, such as demeanor, communication styles, respect?

Failure to communicate effectively usually leads to misunderstanding, mistakes, mistrust and lack of preparation. A functional family enterprise will have communication protocols that define what information is shared, in what form, when, by whom, to whom and in what manner.

3. Forum/Roles

In order for the governance of a family enterprise to function, there must be one or more forums in which discussion, debate and decision-making occurs. These forums ensure the exchange of views, the receipt of critical information, time for brainstorming and dialogue, the development of resolutions and decision-making. In order for a forum to function, there must be clarity of roles. Such clarity allows necessary leadership, participation, accountability, responsibility, team work, group identity and bonding.

Here are some examples of forums that can be useful in a family enterprise, depending upon the circumstances:

- a. Shareholder meetings
- b. Shareholder Council
- c. Trustee meetings
- d. Beneficiary Council
- e. Board of Directors or Advisors
- f. Board Committees and Task Forces
- g. Executive teams
- h. Family wide Assembly
- i. Family Council
- j. Family Council Committees and Task Forces
- k. Informational family meetings
- l. Generational and cross-generational meetings

Diagnosis of a family enterprise involves determining which forums are needed, which exist, which need to be created, and how well are they achieving their purposes. Functionality will be affected by the clarity of roles and responsibilities for those participating in each forum, and the underlying determination about which family members attend and make decisions at which forums.

4. Skills/Knowledge

No matter how well structured may be the governance of the family enterprise, achievement of goals and other aspects of functionality are greatly impacted by the level of skills and understanding that is present in family member participants (and others). Skills, knowledge and experience are needed in order to participate effectively in a meeting and be a competent owner, director, executive, employee, trustee committeeperson or family member. A functional diagnosis of a family enterprise will look at a) the level of skills knowledge and experience needed for each key role; b) what level of skills, knowledge and experience is held by each relevant family members (and others); and c) whether certain key roles are held by family members who lack the appropriate skills, knowledge or experience; and d) whether adequate development plans exist to increase the level of skills, knowledge and experience among relevant family members and in each generation.

5. Decision-making

One of the key parameters of functionality is effectiveness of decision-making. Clarity is required regarding what decisions need to be made, who will make these decisions, (which person or group of persons), and how the decision will be made. There are a number of decision-making alternatives that family enterprises can select; the selection of which alternative might vary depending upon the nature of the decision. Here are the classic models:

- a. Autocratic (one person decides)
- b. Majority vote (any vote greater than 50%)
- c. Supermajority vote (some percentage higher than a mere majority, e.g. 2/3rds or 75%)
- d. Unanimity (100% of voters)

Other aspects of decision-making that may be relevant include striving for consensus, (distinguished from unanimity in that everyone does not necessarily affirmatively vote for a proposition, but all are willing to abide by the outcome and not oppose it). Sometimes there is a 3rd party involved in breaking a tie; sometimes the role is rotated. There is a choice of open voting versus secret ballot. Process concerns about functional decision-making also involve issues of fair notice, timeliness and sufficiency of information, agendas and consultation.

Functional diagnosis of a family enterprise will examine the decision-making processes that exist with an eye toward determining whether all important decisions have been identified, whether clarity and appropriateness exists regarding who will make these decisions, by what threshold of approval, by what process of information exchange, discussion and debate?

6. Satisfaction Level

The subjective satisfaction level of family members in a family enterprise is an important diagnostic parameter. If subjective satisfaction levels are high, it tends to indicate that the family enterprise is functioning well. If subjective satisfaction levels are low, it may point to one or more of the other parameters that are weak or missing. It might also indicate that the individual family member has inappropriate expectations, misunderstandings, unaligned values or conflicting goals.

Summary

The functionality of a family enterprise will essentially be determined by the 6 key parameters listed here. If one or more parameter is missing, weak, undefined or defective, then further development is needed. Our role as family business advisors is to diagnose the family enterprise, identify its strengths and deficiencies, recommend aspects of these key parameters that need creation or strengthening, and then assist with the implementation of these improvements.



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